

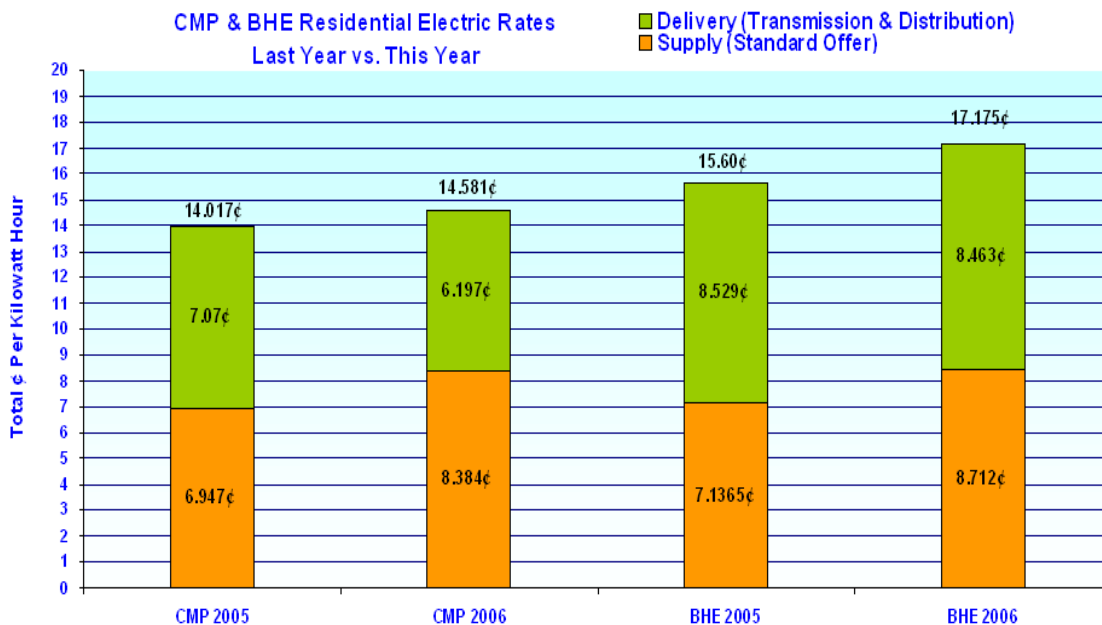
ELECTRICITY GUIDE

Maine Public Advocate Office

Volume 12 — April 2006

Standard Offer Increases for CMP and BHE Customers

On March 1, higher standard offer prices for Bangor Hydro and CMP customers went into effect. By now, many of you have received bills for at least a portion of March that would show that increase. These increases are a direct result of the energy price increases that we all saw last fall after the two Gulf hurricanes. The price of electricity is affected by those market events because so much of our electricity in New England is generated by burning natural gas and oil.



What can a customer do to deal with this increase? Unfortunately, your options are limited. We recommend that you replace your incandescent light bulbs with compact fluorescents. Also, if you are in the market for a new appliance, like a refrigerator or a washer/dryer, you should seriously consider paying more for energy efficiency. Look for the Energy Star logo. The extra cost will soon be paid off

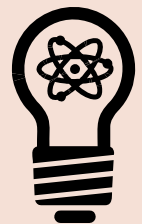
in lower bills, and then the rest is your savings for the life of the appliance. The only other supply options, the green power options offered by Maine Renewable Energy, [www.energymaine.com] have gone up in price faster than the standard offer. As of March 27, their lowest price was 12.0¢/kWh. This is too bad as the high standard offer price should be a good opportunity for them to acquire more customers by offering a lower rate. They have not, however, adopted this market strategy.

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Nuclear power: Is it coming back?

Many people in the power industry are preparing for the return of nuclear power. Perhaps the clearest indicators of this possibility are the substantial incentives contained in the federal Energy Policy Act of 2005. Most people associate this Act with the debate about drilling in the Arctic Wildlife Refuge. The Act, however, contains a wide variety of provisions, including those directed at nuclear power. For example, recently expired legislation, originally passed in the 1950s, providing liability protection for nuclear developers, was reauthorized for 20 years under the Act, the longest extension of this provision ever granted. The bill also protects developers of the first 6 new units from the costs of delays caused by regulation or "litigation that delays the commencement of full-power operations" of a unit. Up to two billion dollars (\$2B) is provided for this purpose. These incentives are provided while there is yet no resolution to the problems



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of storing highly radioactive nuclear waste. Although required by law to provide a single site for such storage, the federal Department of Energy has yet to license such a site, though significant (and costly) work has been done at Yucca Mountain, Nevada.

The Act also authorizes funding for nuclear energy research and development, as well as funding to build an advanced hydrogen cogeneration reactor in Idaho. The bill also creates an assistant secretary for nuclear issues at the Department of Energy.

Another strong indicator that nuclear power is on the verge of a comeback is the growing number of financial advisors who suggest that nuclear power is a smart investment. Some have estimated that there may be 50 new nuclear plants worldwide by 2020, with as many as four US plants in the next five years.

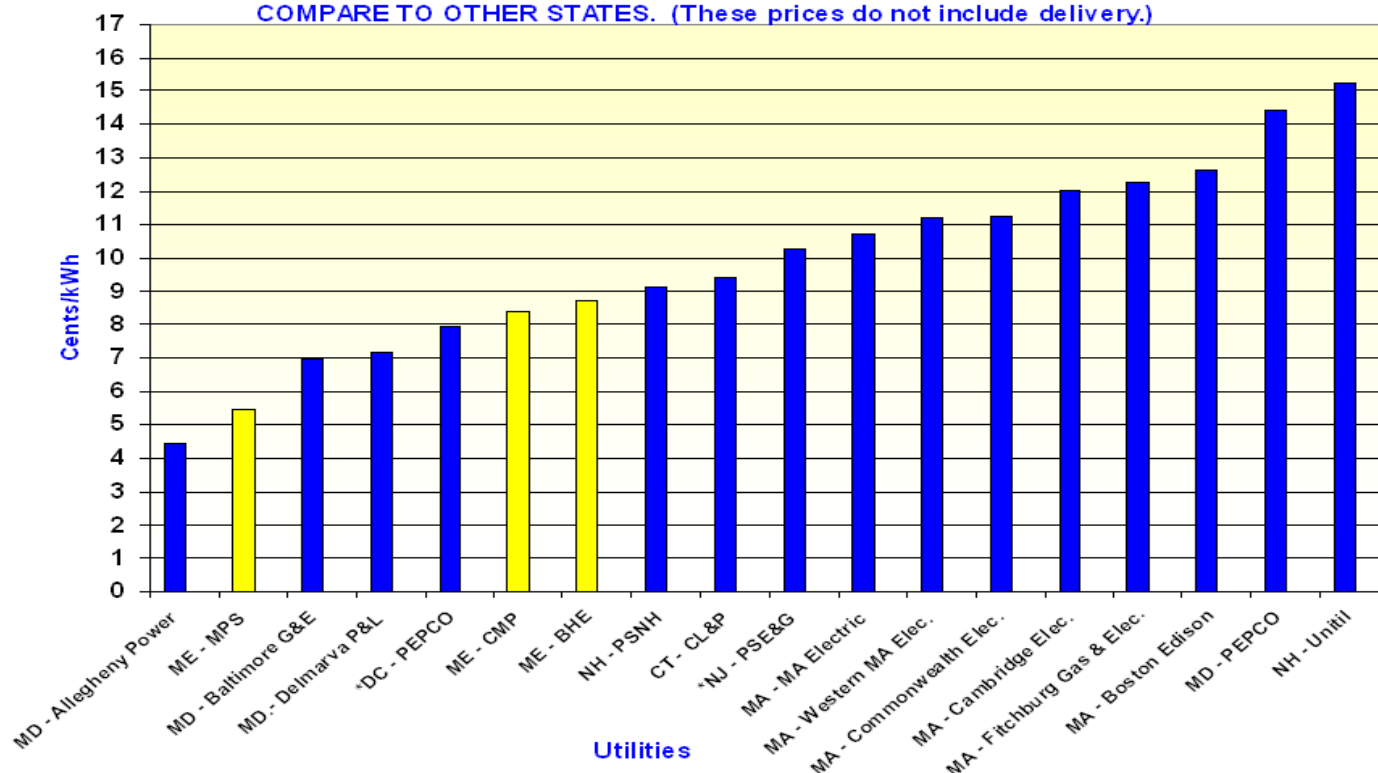
Standard Offer Structure

The standard offer price is now the averaged price of three separate three-year power contracts. Thus, only a third of the power in the standard offer has gone up in price. These three contracts are staggered so that fluctuations over time (both up and down) will have less of an immediate impact.

Standard Offer Structure	3-1-05	3-1-06	3-1-07	3-1-08
Contract #1	6¢/kWh			?
Contract #2	6¢/kWh		?	
Contract # 3	6¢/kWh	12¢/kWh		
Average of 3 contracts = standard offer price	6¢/kWh	8¢/kWh	?	?

This chart attempts to illustrate how the annual standard offer price is determined. Prices are not accurate but are for illustration. The colored boxes represent the three contracts that together make up the total standard offer at the given time. The orange box represents the most recent contract that has caused the current price increase. Next year, the yellow contract will expire and a new price will go into the average.

HOW MAINE'S NEW STANDARD OFFER PRICES FOR RESIDENTIAL CUSTOMERS
COMPARE TO OTHER STATES. (These prices do not include delivery.)



*Rates only as of July 2006.

Prices obtained from State PUC websites and/or utility tariffs.

New Tie Line

Bangor Hydro and New Brunswick Power Company will soon be constructing a new high voltage power transmission line between Orrington, Maine and Point LePreau, New Brunswick. On the Maine side, Bangor Hydro will build its portion, known as the “Northeast Reliability Interconnect.” In Canada, New Brunswick Power will build its segment, known as the “International Power Line.” Together with the existing high voltage line (built when Maine Yankee was built), the entire new line will create a high voltage “loop” between the State and the Province. This loop has essentially two effects. First, it increases reliability: if one line goes down or malfunctions, the other is there to provide service. Second, it increases the amount of power that can flow between Maine and New Brunswick, thereby allowing more transactions. This is important because Maine needs more power in the summer and New Brunswick needs more in the winter. Thus, the increased capacity will likely be used year round, though the direction of the power flow will change accordingly. The exact amount of this increased capacity is not yet known.

Construction on the line is expected to start in June. The date by which the new line will be in service is expected to be December, 2007. The route, once out of the greater Bangor area, is mostly through uninhabited areas, in many places following the Maritimes & Northeast gas pipeline built in 1998.

On the US side, the cost of the line is to be shared among all New England ratepayers as the line is expected to benefit all of New England. The cost of the Canadian portion of the line will be borne by ratepayers in the Maritimes. This is likely to include customers of Maine Public Service and Eastern Maine Electric Cooperative, as both of these utilities are not connected to the rest of Maine and New England except through New Brunswick. Whether and how much northern Maine customers will need to pay towards this line has yet to be determined, although the Public Utilities Commission has recently rejected a request from two northern Maine utilities to base such a payment on the amount of power that has historically flowed between northern Maine and New Brunswick. A major flaw with this proposal was that it would have required payments from Maine customers for twenty-five consecutive years whether the line was used by them in a given period or not.



Is Deregulation Broken?

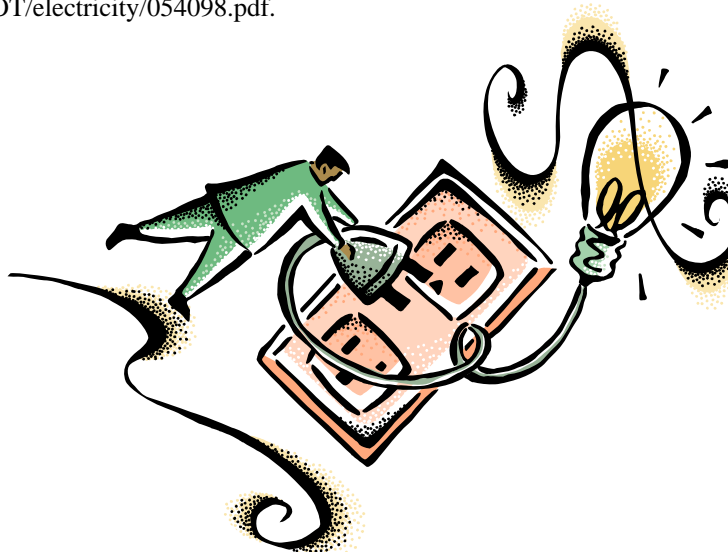
Electric deregulation, also called electric restructuring, began in Maine and in New England in the year 2000, when both the regional wholesale market and the Maine retail market replaced the traditional regulated utility structure. Many of the articles in past issues of this Guide have been devoted to examining and explaining restructuring. Now, with unprecedented high supply prices, many are asking whether the right decision was made. These questions come not only from customers forced to pay these higher supply prices, but from utilities, legislators and others involved in policymaking. In fact, CMP recently proposed to the Legislature that a work group be convened to examine restructuring and what might be done if we conclude that it is broken. One question that will be posed, and that will be extremely hard to answer, will be whether we would have been better off if we had never made the change. Two facts quickly jump out in response to this question, though there are many more: 1) without deregulation, the utilities' power plants never would have been sold and, in the case of CMP, the \$750M purchase price might never have been transferred to its ratepayers; and 2) the current high prices are mostly caused by increases in the world prices for natural gas and oil, not by factors closer to home.

Stay tuned!

RESIDENTIAL RATES IN MAINE PRE- AND POST-RESTRUCTURING AS OF MARCH 2006

UTILITIES	Number of Residential Consumers	Residential Rate Prior to Restructuring (Bundled Rate/kwh) (See Note 1)	Total Bundled Rate for Residential Consumers Effective March 1, 2006 (Supply + T&D = Total)	Change in Residential Rate as of 3/06, Compared with Bundled Pre-Restructuring Rate
Bangor Hydro-Electric Company ("BHE")	Approx. 85,000	13.76 cents/kwh	8.71 cents/kwh + 8.46 cents/kwh = 17.17 cents/kwh	Increase since 1999 of 24.8%
Central Maine Power Company ("CMP")	Approx. 492,000	13.14 cents/kwh	8.384 cents/kwh + 6.197 cents/kwh = 14.581 cents/kwh	Increase since 1999 of 10.9%
Maine Public Service Company ("MPS")	Approx. 29,000	12.63 cents/kwh	5.49 cents/kwh + 7.36 cents/kwh = 12.86 cents/kwh	Increase since 1998 of 1.8%

Note 1: The BHE and CMP residential sector rates are 1999 rates found at <http://www.eia.doe.gov/cneaf/electricity/esr/esr14p19.html>, while the MPS rates are 1998 rates from Table 14 of the EIA Electric Sales and Revenue 1998, <http://tonto.eia.doe.gov/FTP/ROOT/electricity/054098.pdf>.

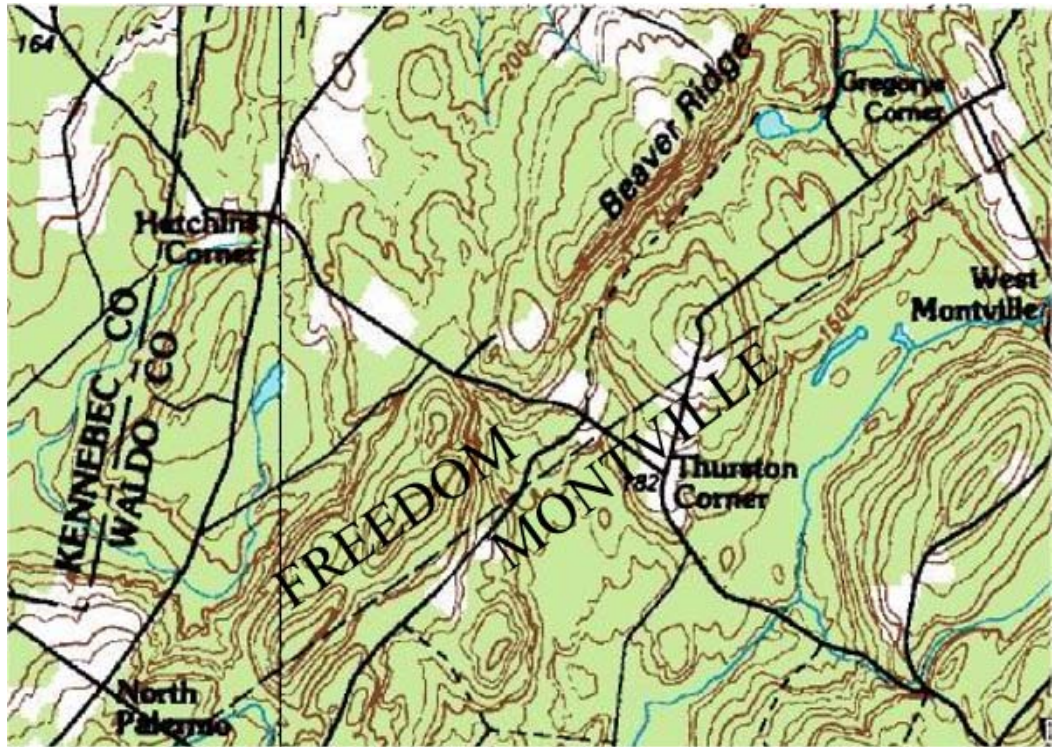


Freedom Wind

A proposal to build three wind turbines in the Town of Freedom was unveiled last month. Competitive Energy Services (CES) plans to put up three 1.5 megawatt turbines on Beaver Ridge [see map]. The wind farm is estimated to cost around \$10 million and could produce enough power for 2000 Maine Households, although CES has indicated that the power would likely be sold to institutional purchasers such as colleges, hospitals and government entities.

Each of the Freedom turbines would stand about 250 feet, with three blades each measuring 140 feet. From ground to blade tip would thus be close to 400 feet. Beaver Ridge itself is about 1000 feet above sea level.

CES plans to work with the town (population 645), which has no applicable ordinance, to make sure all questions are answered. A public meeting will be held where all residents will be invited to ask questions and raise issues. For more information, go to: www.energymaine.com.



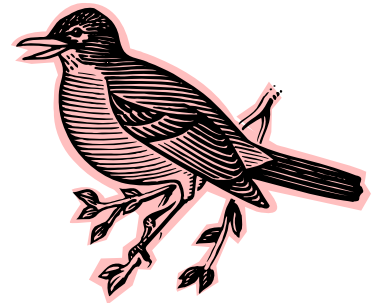
Regional Price Increases

Recently, the Independent System Operator for New England (ISO-NE) announced a “deal” reached among many members of the New England marketplace for providing incentives for developers to build new generators to meet the projected demand for electricity. We do not support this deal and neither does CMP or the Maine PUC. In the old days utilities had an obligation to make sure that there was enough power to serve the needs of customers. With generation deregulated (in fact Maine’s utilities are prohibited from owning generation), that obligation to serve is gone. There is legitimate concern that the marketplace does not provide enough of an incentive to those who build power plants, but the method prescribed by this deal is too expensive, leading to increases in the total residential rate in excess of 6%. This partial agreement has been filed with regulators in Washington and could be approved by June. The increases would go into effect on December 1. Our office recently joined with the Public Utilities Commission in filing Comments at FERC opposing this deal.

CMP Delivery Rate Agreement Pending at the Commission

Much of the news is about the large increases in the cost of electricity supply. A happier story exists for delivery, where prices for both CMP and BHE have steadily dropped. In December, we reached a negotiated agreement with CMP to extend its current multi-year delivery rate plan through 2010. The benefits of this deal would be a larger rate discount to go into effect this July, an increase in benefits to those ratepayers who have trouble paying pay their bills during the winter months as well as an extension of rate certainty. While approving the low-income provisions, the PUC is still reviewing the remainder of this agreement. A resolution of that process is expected no later than the end of May.

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ABOUT THE PUBLIC ADVOCATE OFFICE

Stephen G. Ward, the Public Advocate, and his staff of seven represent Maine's telephone, electric, gas, and water customers before the Maine Public Utilities Commission, the courts, and federal agencies. Our mission is to work for reasonably priced, safe, and reliable utility services for Maine people. **Website:** <http://www.maine.gov/meopa> **(Telephone 287-2445)**
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